



SHULLY'S
INDUSTRIES LIMITED

Annual Report 1965

JUN - 2 1965

SHULLY'S INDUSTRIES LIMITED

EXECUTIVE OFFICES:

73 WINGOLD AVENUE, TORONTO 19, ONTARIO

DIRECTORS:

MAURICE SHULLY
HAROLD IRWIN SHULLY
GILBERT JAY SHULLY
RAPHAEL DAVID WOLFE
LEON ELLIOT WEINSTEIN
ALBERT SHIFRIN, Q.C.
LIONEL B. WHITE

OFFICERS:

MAURICE SHULLY, *President*
HAROLD IRWIN SHULLY, *Vice-President and Secretary*
GILBERT JAY SHULLY, *Vice-President and Treasurer*
MAURICE BRONNER, *Comptroller*
HARRY HIBLOOM, *Assistant Comptroller*

TRANSFER AGENTS AND REGISTRAR:

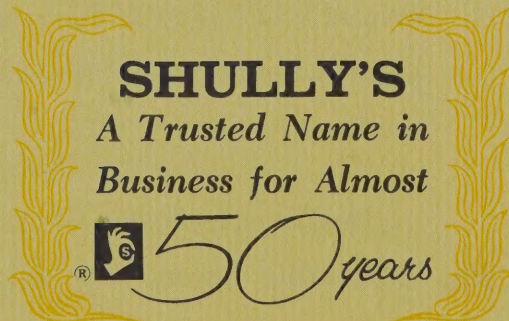
GUARANTY TRUST COMPANY OF CANADA

AUDITORS:

PAPE, STROM, SHERMAN & LAVINE

BANKERS:

CANADIAN IMPERIAL BANK OF COMMERCE



Report to the Shareholders

The year ending January 31st, 1965 was somewhat disappointing to your Company's directors. Despite substantial increases in sales, net profits were lower than anticipated. There were many extraordinary, non-recurring factors that effected the earnings for the last six months of the year.

In order to achieve higher sales and higher profits your Company embarked on an extensive promotional programme to obtain new fuel oil customers. This programme was successful, but the cost of obtaining these new accounts effected current year's profits. The retention of these accounts will enhance future profits.

In the Aluminum Division there were many factors that effected our

sales and profits. Sales tax was increased during the year and due to competitive factors we were unable at that time to adjust our selling prices. In addition our cost of raw material was increased. Effective January 1965 our selling prices have been adjusted to reflect these additional costs.

During the second half of the current year consolidation of our two Aluminum plants took place. This resulted in disruption of production. Extensive expenses incurred in moving of equipment, inventories and the consolidation of plant and personnel. We are happy to report that the production is now proceeding quite smoothly and the savings resulting from this consolidation are presently being enjoyed by the Company.



In order to expand our sales activities in the Aluminum Division, new personnel were hired and trained, which programme was quite costly and the full benefits of this will be realized in subsequent years.

Adsa Acceptance Corporation Limited has increased its activities within the Shully organization and its incomes earned and deferred have increased substantially. This will generate added profits in future years.

Your Management is presently embarking upon a programme of further diversification and expansion from without, as well as from within, and we look forward to being able to report to our shareholders, increased sales and profits in the current year.

I trust our shareholders will appreciate that we are proceeding and expanding with great care and caution and prefer that our progress be solid, if somewhat slower.

Your Board of Directors are very confident that this programme will ultimately be fruitful to all concerned.

The success in the future of any Company to a great extent depends on the loyalty, ability and enthusiasm of its executive staff and employees. I am most grateful and appreciative to our staff for their tireless efforts in our programme for the future.

On behalf of the Board,

* MAURICE SHULLY,
President

SHULLY'S INDUSTRIES LIMITED**CONSOLIDATED BALANCE SHEET****Assets**

	1965	1964
CURRENT		
Cash	\$ 31,437	\$ 12,923
Accounts receivable, less allowance for doubtful accounts	1,864,962	1,666,866
Inventories of raw materials, work in process and finished goods— at the lower of cost or market	404,261	388,107
Advances to salesmen and employees	81,429	75,358
Sundry investments and deposits	23,775	22,695
Prepaid expenses	<u>122,655</u>	<u>99,909</u>
TOTAL CURRENT ASSETS	<u>\$2,528,519</u>	<u>\$2,265,858</u>
 Unamortized development costs — new products	<u>\$ 51,779</u>	<u>\$ 58,251</u>
Investment in shares of subsidiary — at cost		<u>\$ 6,051</u>
 Fixed — (note 5)		
Motor vehicles	\$ 258,329	\$ 253,208
Plant and equipment	<u>381,177</u>	<u>356,817</u>
	<u>\$ 639,506</u>	<u>\$ 610,025</u>
 Less — Accumulated depreciation	<u>305,475</u>	<u>256,898</u>
	<u>\$ 334,031</u>	<u>\$ 353,127</u>
 Other		
Fuel oil distribution accounts	\$ 938,335	\$ 952,501
Goodwill on acquisition of subsidiary — at cost	100,000	100,000
Patents, patent rights and franchises	552,810	552,533
Debenture discount, issue and other expenses — unamortized	<u>77,513</u>	<u>90,740</u>
	<u>\$1,668,658</u>	<u>\$1,695,774</u>
 TOTAL ASSETS	<u>\$4,582,987</u>	<u>\$4,379,061</u>

Approved on behalf of the Board:
MAURICE SHULLY (Director)
GILBERT JAY SHULLY (Director)

The attached notes form an integral part of these financial statements.

AND SUBSIDIARY COMPANIES

.....AS AT JANUARY 31, 1965

Liabilities

CURRENT

	1965	1964
Bankers' advances (secured)	\$ 705,676	\$ 543,188
Accounts payable and accrued liabilities	522,451	574,611
Income taxes payable (note 6)	100,895	54,802
Other taxes	25,348	
TOTAL CURRENT LIABILITIES	\$1,354,370	\$1,172,601
Unearned finance charges	\$ 78,365	\$ 43,533
6% Convertible debentures — maturing March 7, 1972 (note 3)	698,600	737,100
	\$ 776,965	780,633
TOTAL LIABILITIES	\$2,131,335	\$1,953,234

Shareholders' Equity

CAPITAL STOCK (note 2)

Authorized:

300,000 3% Non-cumulative, redeemable, convertible, voting,
preference shares, par value \$5.00 each

2,000,000 Common shares of no par value

Issued:

250,000 Preference shares	\$1,250,000	\$1,250,000
325,287 Common shares (1964 — 325,227 shares)	1,030,988	1,030,688
	\$2,280,988	\$2,280,688
RETAINED EARNINGS	170,664	145,139
	\$2,451,652	\$2,425,827

\$4,582,987 **\$4,379,061**



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SHULLY'S INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME

For Year Ended January 31, 1965

	1965	1964
SALES	\$6,216,088	\$4,874,560
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES (Before the undernoted items)	\$5,851,431	4,528,649
Provision for depreciation and amortization	\$ 48,578	\$ 38,127
Debenture interest	42,919	50,769
Interest and bank charges	29,076	9,515
Directors' fees	400	650
	<u>\$5,972,404</u>	<u>\$4,627,710</u>
PROFIT BEFORE INCOME TAXES	\$ 243,684	\$ 246,850
INCOME TAXES	107,160	83,488
NET PROFIT	<u>\$ 136,524</u>	<u>\$ 163,362</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For Year Ended January 31, 1965

	1965	1964
BALANCE — Beginning of year	\$145,139	\$ 88,856
ADD		
Net profit for year	136,524	163,362
Gain on 6% convertible debentures, purchased for cancellation	2,275	383
	<u>\$283,938</u>	<u>\$ 252,601</u>
DEDUCT		
Dividends paid:		
— 3% Non-cumulative preference shares	\$ 37,500	\$ 37,500
— Common shares	65,051	48,751
	<u>\$102,551</u>	<u>\$ 86,251</u>
Debenture discount and issue expenses amortized	10,723	21,211
	<u>\$113,274</u>	<u>\$ 107,462</u>
BALANCE — end of year	<u>\$170,664</u>	<u>\$ 145,139</u>
NET EARNINGS PER SHARE42	.50

AUDITORS' REPORT

PAPE, STROM, SHERMAN & LAVINE
CHARTERED ACCOUNTANTS
220 BAY STREET
TORONTO 1

To the Shareholders of
Shully's Industries Limited

We have examined the consolidated balance sheet of Shully's Industries Limited and its subsidiary companies as at January 31, 1965, and the consolidated statements of income and retained earnings for the year ended on that date.

Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and retained earnings present fairly the financial position of Shully's Industries Limited and its subsidiary companies as at January 31, 1965, and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PAPE, STROM, SHERMAN & LAVINE
Chartered Accountants.

Toronto, Canada,
April 20, 1965.

NOTES TO THE FINANCIAL STATEMENTS

- 1 PRINCIPLES OF CONSOLIDATION** — The financial statements include the accounts of Shully's Industries Limited and the following wholly-owned subsidiary companies: Shully's Automatic Heating and Cooling Co. Limited, Adsa Acceptance Corporation Limited and The Dumont Aluminum Limited.
- 2 CAPITAL STOCK** — During the year \$300 6% convertible debentures were converted into 60 common shares of the company. Provision has been made to set aside 366,434 common shares of the authorized capital of the company to meet the requirements for the conversion of the 6% convertible debentures and the preference shares presently outstanding.
- 3 6% CONVERTIBLE DEBENTURES** — The debentures mature on March 7, 1972, and are subject to redemption and eligible for conversion under the provisions of a trust indenture dated March 7, 1962, between the company and The Guaranty Trust Company of Canada, as trustee. The debentures are secured by a first floating charge on the assets of the company. During the year \$38,200 principal amount of debentures were purchased for cancellation for an aggregate cash consideration of \$35,925.
- 4 LONG-TERM LEASES** — The companies have entered into long-term leasing agreements for the rental of real property extending to December 31, 1971. Aggregate annual rental payments of \$61,160 are required to June 30, 1970, and \$33,300 per annum for the remainder of the term.
- 5 FIXED ASSETS** — Fixed assets as at February 1, 1962, were recorded on the books and accounts at appraised value, and subsequent additions have been recorded at cost. Depreciation has been calculated in accordance with generally accepted accounting principles applied to appraised values or original cost, whichever was applicable.
- 6 INCOME TAXES** — Taxes on income for the current year have been reduced approximately \$7,700 because of the intention of the companies to claim for tax purposes maximum capital cost allowance which in the aggregate exceed the amounts provided in the accounts by \$14,800. The accumulated amount to date by which income taxes otherwise payable have been so reduced is approximately \$19,700.
- 7 STOCK OPTIONS** — Under the company's stock option plan to employees, 2,570 common shares of the unissued capital stock of the company are available for issue under the plan at \$5 per share.

